

Message Text

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ACTION EB-03

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 7040

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY SAN SALVADOR

AMEMBASSY LONDON

AMEMBASSY BOGOTA

C O N F I D E N T I A L BRASILIA 6611

LIMDIS

E.O. 11652: GDS

TAGS: EAGR, ETRD, BR

SUBJ: BRAZILIAN PURCHASE OF EL SALVADOR COFFEE; BRAZILIAN PRO-
DUCTION ESTIMATES

REFS: (A) RIO 2825; (B) STATE 184181

1. SUMMARY. FOREIGN MINISTRY OFFICIAL, LIKE CALAZANS, DEFENDED SALVADOREAN PURCHASE ON COMMERCIAL GROUNDS, I.E., TO SUPPLY BRAZILIAN SOLUBLE INDUSTRY. THE OFFICIAL SAID THE "WORST" CONCERN IS THAT BRAZIL MIGHT RUN OUT OF STOCKS WITHIN THE NEXT TWO YEARS. HE CLAIMED IBC WOULD RELEASE A NEW PRODUCTION ESTIMATE IN AUGUST BELOW 7 MILLION BAGS. WE BELIEVE GOB OFFICIALS WERE IMPRESSED BY THE FORCEFULNESS OF OUR PRESENTATION. AS THE CONGRESSIONAL HEARINGS ON THE ICA MOVE FORWARD, THE DEPT MIGHT WISH TO CONSIDER ANOTHER EXCHANGE BETWEEN DEPUTY ASSISTANT SECRETARY KATZ AND IBC'S PRESIDENT. END SUMMARY.

2. ON JULY 27, COUNS ECON-COMMERCIAL MADE REF B APPROACH TO
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COUNSELOR PAULO DYRCEU PINHEIRO, CHIEF OF THE FOREIGN MINISTRY'S

BASIC PRODUCTS DIVISION. PINHEIRO CLAIMED HE HAD NOT BEEN IN TOUCH WITH CALAZANS RECENTLY, BUT HIS DEFENSE OF BRAZIL'S MOTIVES (I.E., TO SUPPLY BRAZIL'S SOLUBLE INDUSTRY) IN SEEKING TO PURCHASE SALVADOREAN COFFEE GENERALLY DOVETAILED WITH THAT MADE BY CALAZANS (REF A). PINHEIRO SAID BRAZIL HAD SOUGHT TO BUY FROM SALVADOR BECAUSE IT COULD NOT BUY FROM ANGOLA. PINHEIRO REMARKED THAT BRAZIL HAD SOUGHT TO BUY LOWER QUANTITIES IN SALVADOR THAN IN ANGOLA, AND THAT BRAZIL IS ATTEMPTING TO BUY IN SALVADOR AT AT TIME WHEN PRICES ARE LOW. HE SAID HE DID NOT BELIEVE THAT ANY UPSURGE IN PRICES IN THE NEXT FEW MONTHS COULD BE ASCRIBED TO A SALVADOREAN PURCHASE.

3. PINHEIRO COMMENTED THAT THE FOREIGN MINISTRY HAD BEEN UPSET TO READ OF CALAZAN'S POOR CHOICE OF LANGUAGE IN JUSTIFYING THE REASONS FOR A SALVADOREAN PURCHASE, E.G., TO DEFEND PRICES. WITH RESPECT TO LAST PARAGRAPH OF MISSION'S TALKING PAPER, HE SAID THE GOB WOULD TAKE A RATHER SERIOUS VIEW OF A POSSIBLE US MOVE TO RAISE THIS ISSUE IN COFFEE COUNCIL.

4. TURNING TO PRODUCTION ESTIMATES, PINHEIRO SAID "WE SHOULD NOT BE SURPRISED" TO SEE AN ANNOUNCEMENT IN AUGUST BY IBC OF A PRODUCTION ESTIMATE BELOW 7 MILLION SACKS FOR 1976/77. COUNSELOR, NOTING THE RECENT REDUCTIONS IN IBC ESTIMATES, EXPRESSED SURPRISE AT EVEN LOWER FIGURES, AND OBSERVED THAT SUCH ESTIMATES, COMING AT THE TIME OF CONGRESSIONAL CONSIDERATION OF A NEW ICA, COULD HAVE NEGATIVE REPERCUSSIONS IN THE US IF HIGHER PRICES RESULTED AS THEY PROBABLY WOULD. PINHEIRO SAID HE RECOGNIZED THIS. HE ALSO POINTED TO BRAZIL'S INTEREST IN NOT STIMULATING LONG-TERM HIGHER PRICES OF COFFEE, WHICH WOULD DECREASE CONSUMPTION AND STIMULATE PRODUCTION ELSEWHERE (AFRICA, CENTRAL AMERICA). PINHEIRO THEN OBSERVED THAT THE "WORST" CONCERN IS THE "FORECAST" THAT BRAZIL MIGHT RUN OUT OF STOCKS WITHIN THE NEXT TWO YEARS. THIS, HE SAID, MIGHT REQUIRE BRAZIL TO BUY ON THE WORLD MARKET TO SUPPORT DOMESTIC CONSUMPTION AND TO SUPPLY TRADITIONAL CUSTOMERS, BUT BRAZIL WOULD TRY TO AVOID PURCITY ABOUT THIS. COUNSELOR NOTED THAT SUCH BRAZILIAN PURCHASES COULD NOT BE KEPT SECRET.

5. IN CLOSING, PINHEIRO SAID BRAZIL WAS COUNTING ON THE US EXECUTIVE BRANCH TO BE PERSUASIVE IN CONGRESS ON THE ICA.
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COUNSELOR SAID THAT WHILE THE EXECUTIVE BRANCH WAS COMMITTED TO THE ICA, CONGRESSIONAL APPROVAL WOULD NOT BE EASY NOTING THE HISTORY OF RECENT US/BRAZILIAN EXCHANGES, HE SAID US COMMENTS WERE OFFERED IN THE SPIRIT OF COOPERATION AND CANDOR WHICH HAD GUIDED THESE EXCHANGES. WE WOULD APPRECIATE ANY FURTHER COMMENTS GOB MIGHT WISH TO OFFER.

6. COMMENT. CALAZANS AND PINHEIRO SEEMED IMPRESSED, AND PERHAPS

EVEN SURPRISED, BY THE FORECEFULNESS OF OUR PRESENTATION OF USG CONCERNS THAT BRAZILIAN INTERFERENCE IN THE COFFEE MARKET, BY CAUSING HIGHER PRICES, COULD HAVE VERY NEGATIVE REPERCUSSIONS IN CONGRESS. WE BELIEVE THE GOB, WHICH HAS SEEMED CONFIDENT OF CONGRESSIONAL APPROVAL OF THE ICA, HAS BEEN UNDERESTIMATING THE POTENTIAL FOR NEGATIVE REPERCUSSIONS OF ITS ACTIONS. THUS THE PRESENTATION PROBABLY HAD A SALUTARY EFFECT. AS CONGRESSIONAL HEARINGS ON THE ICA MOVE FORWARD, THE DEPT MAY WISH TO CONSIDER ANOTHER EXCHANGE OF LETTERS BETWEEN DEPUTY ASSISTANT SECRETARY KATZ AND CALAZANS ON THE SUBJECT OF THE HEARINGS AND EVOLVING CONGRESSIONAL REALITIES. THIS MIGHT HELP STIMULATE A MORE COOPERATIVE ATTITUDE ON THE PART OF THE GOB, WHICH, AFTER ALL, WANTS A NEW ICA AND APPRECIATES THE ROLE OF CONGRESS IN MAKING IT A REALITY.

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